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STATE OF INDIANA

JUL 08 2007

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY

REGULATORY COMMISSION

IN THE MATTER OF THE PETITION )  
OF TWIN LAKES UTILITIES, INC. )  
FOR AN INCREASE IN ITS RATES )  
AND CHARGES FOR WATER AND )  
WASTEWATER UTILITY SERVICE )

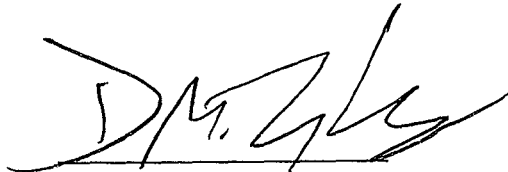
CAUSE NO. 43128

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY

JUDITH I. GEMMECKE – PUBLIC'S EXHIBIT NO. 4

Respectfully submitted,



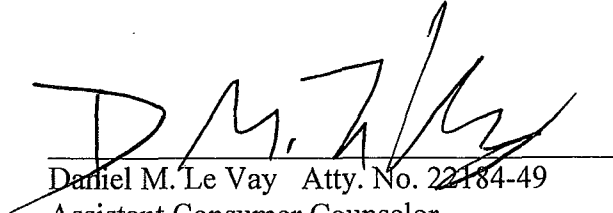
Daniel M. LeVay  
Assistant Consumer Counselor

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing has been or will be served upon the following parties of record in the captioned proceeding by electronic mail or as otherwise agreed, on July 3, 2007.

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**SETTLEMENT TESTIMONY OF JUDY GEMMECKE**  
**CAUSE NO. 43128**  
**TWIN LAKES UTILITIES, INC.**

**Introduction**

1    **Q:    Please state your name and business address.**

2    A:    My name is Judith I. Gemmecke and my business address is Indiana Government  
3           Center North, Room N501, 100 North Senate Avenue, Indianapolis, Indiana 46204.

4    **Q:    By whom are you employed and in what capacity?**

5    A:    I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a  
6           Senior Utility Analyst.

7    **Q:    Are you the same Judith Gemmecke that previously filed testimony in this**  
8           **Cause?**

9    A:    Yes.

10   **Q:    What is the purpose of your testimony in this proceeding?**

11   A:    The purpose of my testimony is to support the settlement reached between the  
12           OUCC and Twin Lakes with respect to its water and sewer rates. More  
13           specifically, I will focus on the terms reached that represent a compromise  
14           between the OUCC's testimonial position as provided in the OUCC's case-in-  
15           chief and Petitioner's position as of its rebuttal filing. I will also discuss how the

1 settled increase in rates was calculated. Finally, I will provide schedules that  
2 incorporate the compromise reached.

3 **Q: What changes to pro forma present rate net operating income have been**  
4 **made from the OUCC testimony regarding rate related items?**

5 A: There have been six (6) basic changes that have affected the rate proposal  
6 originally submitted by the OUCC. These changes include:

- 7     ▪ Salaries and wages (and related payroll tax)
- 8     ▪ Amortization of Rate Case Expense
- 9     ▪ Depreciation (for sewer)
- 10    ▪ Amortization of CIAC (for sewer)
- 11    ▪ Cost of Common Equity
- 12    ▪ State and Federal Income taxes

13 **Q: What schedules are included with your testimony?**

14 A: I have provided the following schedules based on the settlement.

15           Schedule 1 (W / S) – Revenue Requirement, Gross Revenue Conversion  
16           Factor, Reconciliation of Net Operating Income Statement  
17           Adjustments.

18           Schedule 2 – Balance Sheet as of June 30, 2006

19           Schedule 3– Income Statement for Year Ended June 30, 2006

20           Schedule 4 (W / S) – Rate Base and Working Capital.

21           Schedule 5 – Capital Structure and Synchronized Interest (for use in  
22           Income tax calculation)

23           Schedule 6 (W / S) – *Pro-forma* Net Operating Income Statement

24           Schedule 7 – Revenue Adjustments

1           ✶ Schedule 8 - Expense Adjustments

2           Schedule 9 (W / S) – Comparative Rate Tariff

3                           **Settled *Pro Forma* Expense Issues**

4   **Q:   Please explain the settlement relating to *pro forma* salaries and wages**  
5       **expense.**

6   **A:   The OUCC and Petitioner agreed on *pro forma* salaries and wages expense by**  
7       **calculating the pro forma amount in the following manner:**

8  
9       First, we assumed the level of wages requested by Petitioner in Cause No. 42488  
10      were reasonable and necessary and increased that level by 4% per year from 2004  
11      through 2007. This resulted in pro forma wages of \$320,315 for water and sewer  
12      together.

13      Next, the OUCC and Petitioner agreed to incorporate an allocated portion of two  
14      new employees' salaries, along with payroll tax and benefits. This resulted in an  
15      additional \$28,407 that was not present in the OUCC's previous filing in this  
16      Cause. The detail to the adjustment can be seen on Schedule 8 as adjustment 1(a).  
17      From the OUCC's perspective, this compromise was supported in part by the  
18      hiring of the two new employees during the twelve month period following the  
19      end of the test year, which was indicated in Petitioner's rebuttal case.

20   **Q:   Please explain the settlement regarding rate case expense.**

21   **A:   Petitioner's rebuttal testimony accepted all the OUCC calculations of pro forma**  
22       **rate case expense except the amount associated with legal fees. The OUCC had**

1 recommended \$30,000 and Petitioner had requested \$80,000 for that component  
2 part of rate case expense. Following some discussion and review of billing  
3 statements provided under a claim of confidentiality to the OUCC, the Parties  
4 ultimately agreed on \$40,000 in rate case legal fees. This represents a  
5 compromise of both parties' position with respect to rate case legal fees.

6 **Q: Please explain the settlement regarding depreciation expense.**

7 **A:** As part of the settlement, Petitioner has accepted the OUCC's position that one  
8 composite rate should apply to all the utility's depreciable assets in service.  
9 However, as part of this settlement, both the OUCC and Twin lakes agreed to a  
10 depreciation rate on its sewer plant of 2.5% from Petitioner's current composite  
11 depreciation rate of 2.1%. This compromise was reached when it was noted that  
12 the sewer depreciation rate of 2.1%, which had previously been approved by the  
13 commission for Twin Lakes in a prior commission order, was less than the current  
14 sewer composite rate of 2.5%, which the Commission established as a standard  
15 rate in 1987. Therefore, the Parties have agreed to use the 2.5% depreciation rate  
16 for *all* sewer assets, which has resulted in annual *pro forma* depreciation expense  
17 of \$299,003 for the sewer utility. Likewise, *all* water assets will continue to be  
18 depreciated at a rate of 2% which has resulted in annual *pro forma* depreciation  
19 expense of \$107,050 for the water utility.

1 Q: Has ~~using~~ the 2.5% depreciation rate for the sewer plant also changed the  
 2 *pro forma* annual amortization of Contributions in Aid of Construction  
 3 ("CIAC") for the sewer utility?

4 A: Yes. However, this *pro forma* change in the depreciation rate has not changed the  
 5 accumulated amortization of CIAC nor has it changed the accumulated  
 6 depreciation for sewer plant – both of which were based on the prior approved  
 7 rate of 2.1%.

8 Q: Do all the above changes have an effect on *pro forma* income tax expenses  
 9 under present rates?

10 A: Yes. All the above adjustments plus the change in the cost of equity capital have  
 11 an effect on net operating income and taxable income. The calculation method  
 12 has remained the same between my prior testimony and this settlement testimony,  
 13 however with the increases in tax-deductible expenses, tax expense has decreased.

#### 14 Cost of Common Equity

15 Q: What is the cost of common equity the OUCC and Petitioner have settled on?

16 A: The settlement establishes a cost of common equity of 10.15%. Petitioner had  
 17 originally requested 11.5%, the OUCC recommended 9.15%. Petitioner's rebuttal  
 18 testimony revised its request to 11.4%. The rate of 10.15% is a compromise by  
 19 both Parties and had the following affect on the testimonial positions after all  
 20 other issues in the settlement had been resolved:

Cost of Common Equity	11.40%	9.15%	10.15%
Weighted Cost of Capital	8.60%	7.65%	8.07%
Net Operating Income Required - Water	\$187,563	\$166,844	\$176,004
Net Operating Income Required - Sewer	\$520,272	\$462,800	\$488,209

**Sewer Rate Structure**

1

2 **Q: Have the OUCC and Petitioner reached a settlement regarding the rate**  
3 **structure of the sewer utility?**

4 **A:** Yes. We have agreed that Petitioner will prepare a rate study such that some  
5 portion of the billing will be based on usage rather than the current method of a  
6 flat rate. The rate study should be presented to the Commission for approval  
7 either before the next rate case or with its next rate case.

**Settlement with Intervenor**

8

9 **Q: Is it your understanding that the Intervenor, Lake of the Four Seasons**  
10 **Homeowners Association, and Petitioner have also reached a settlement?**

11 **A:** Yes. Further, the OUCC does not object to that settlement.

**Q: Does the OUCC consider the proposed settlement between Twin Lakes and**  
**the OUCC to be in the public interest?**

**A:** Yes.

12 **Q: Does this conclude your testimony?**

13 **A:** Yes.



TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128OUCC's Revenue Requirement  
Water

Description:	Supplemental Petitioner	Per OUCC	Per Settlement	Schedule Reference
Original Cost Rate Base	\$1,858,593	\$2,178,679	\$2,180,964	4W
Times: Weighted Cost of Capital	8.64%	7.65%	8.07%	5
Net Operating Income Required	160,582	166,669	176,004	
Less: Adjusted Net Operating Income	(53,163)	72,211	61,204	6W
Amount to Balance to Petitioner's numbers	17			
Additional NOI Required	213,762	94,457	114,800	
Gross Revenue Conversion Factor	1.81730	1.6933	1.6933	1W
Recommended Revenue Increase	\$388,470	\$164,041	\$198,485	
Petitioner's Calculated Percentage Increase (data request #44)	48.36%			
OUCC Percentage Increase - Calculated	48.30%	19.85%	24.02%	

Rate Impact - 13,500 gallons bimonthly:

	Current	Supplemental Petitioner	OUCC	Settlement
	\$43.74	\$64.89	\$52.42	\$54.24
Avg. per month		\$32.44	\$26.21	\$27.12

## Gross Revenue Conversion Factor

Description	Proposed Rates By Petitioner	Supplemental Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC	Proposed Rates Settlement
1 Gross Revenue Change	\$364,493	\$388,470	100.0000%	\$164,041	\$198,485
2 Bad Debts Charge	2,104	2,242	0.5788%	949	1,149
3 Subtotal			99.4212%		
4 IURC Fee (2007 Fiscal Year Ending) 0.1062098%	387	413	0.1062%	174	211
5 Subtotal			99.3150%		
6 State Utility Receipts Tax (1.4% of line 3)	5,073	5,407	1.3919%	2,283	2,763
7 Subtotal			97.9231%		
8 State Adjusted Gross Receipts Tax (8.5% of line 5)	30,341	32,336	8.4418%	13,848	16,756
Utility/Commission Tax (Pet. w/p [e]) (3.4% of line 7)	12,136				
Unknown amount to balance (approx. 8% of revenue increase)		31,165			
9 Subtotal			89.4814%		
10 Federal Income Tax (at 34%)	106,925	113,959	30.4237%	49,907	60,387
11 Change In Operating Income	\$207,527	\$213,763	59.0577%	\$96,879	\$117,221
12 Gross Revenue Conversion Factor			1.6933		

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128  
WATER  
Reconciliation of Net Operating Income Statement Adjustments

Description:	Supplemental Petitioner	Per OUCC	Per Settlement
Operating Revenues:			
Water Revenues - Residential	\$1,636	\$2,677	\$2,677
Total Operating Revenue	<u>1,636</u>	<u>2,677</u>	<u>2,677</u>
Operating Expenses:			
Salaries & Wages	66,704	6,172	8,195
New employees allocated w/taxes and benefits			14,343
Payroll Taxes	4,935	512	907
Employee Benefits	6,368	0	0
Operating Exp chgd to Plant	247	(677)	(837)
Consumer Price Index Increase	10,088	0	0
Amortization of Rate Case Expense	1,687	(12,287)	(10,604)
Meter Reading Allocation		(6,709)	(6,709)
Bad Debts Expense		91	91
IURC Fee		3	3
Utility Receipts Tax		(25,055)	(25,055)
Depreciation	18,104	(9,873)	(9,873)
Amortization of Contributions in Aid of Construction	0	(41,235)	(41,235)
Income Taxes - Federal	(111,638)	(53,314)	(59,029)
Income Taxes - State	(38,969)	(21,960)	(23,522)
Total Operating Expense	<u>(42,474)</u>	<u>(164,332)</u>	<u>(153,325)</u>
Total Net Operating Income Adjustments	<u>\$44,110</u>	<u>\$167,009</u>	<u>\$156,002</u>

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

## OUCC's Revenue Requirement

Description:	Sewer		Per Settlement	Sch Ref
	Supplemental Petitioner	Per OUCC		
Original Cost Rate Base	\$5,530,819	\$6,071,559	\$6,049,672	4S
Times: Weighted Cost of Capital	8.64%	7.65%	8.07%	5
Net Operating Income Required	477,863	464,474	488,209	
Less: Adjusted Net Operating Income	322,148	478,392	448,367	6S
Amount to Balance to Petitioner's numbers	115	0	0	
Additional NOI Required	155,830	(13,917)	39,842	
Times: Gross Revenue Conversion Factor	1.75630	1.6933	1.6933	1S
Recommended Revenue Increase	\$273,684	(\$23,566)	\$67,463	
Petitioner's Calculated Percentage Increase (data request #44)	19.73%			
OUCC Percentage Increase - Calculated		-1.58%	4.52%	
Percentage Increase Requested	19.73%	-1.58%	4.52%	

Rate Impact		Supplemental Petitioner	Per OUCC	Per Settlement
Residential (Flat Rate - bimonthly)	Current			
	80.53	\$96.42		\$84.17
Commercial	200% of Water bill			
	13,500 bi-monthly gallons		\$78.55	

## Gross Revenue Conversion Factor

Description		Proposed Rates By Petitioner	Supplemental Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC	Proposed Rates Settlement
1	Gross Revenue Change	\$253,217	\$273,684	100.0000%	(\$23,566)	\$67,463
2	Bad Debts Charge	1,462	1,580	0.5784%	(136)	390
3	Subtotal			99.4216%		
4	IURC Fee (2007 Fiscal Year Ending)	0.1062%	269	0.1062%	(25)	72
5	Subtotal			99.3154%		
6	State Utility Receipts Tax (1.4% of line 3)	\$3,524.58	3,809	1.3919%	(328)	939
7	Subtotal			97.9235%		
8	State Adjusted Gross Receipts Tax (8.5% of line 5)	\$21,076.79	22,780	8.4418%	(1,989)	5,695
	Utility/Commission Tax (Pet. w/p [e]) (3.4% of line 7)	\$8,430.72	9,112			
	Unknown amount to balance (approx. 8% of revenue increase)					
9	Subtotal			89.4817%		
10	Federal Income Tax (at 34%)	\$74,274.61	80,278	30.4238%	(7,170)	20,525
11	Change In Operating Income			59.0579%	(\$13,917)	\$39,842
12	Gross Revenue Conversion Factor			1.6933		

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128Sewer

## Reconciliation of Net Operating Income Statement Adjustments

Description:	Supplemental Petitioner	Per OUCC	Per Settlement
Operating Revenues:			
Sewer Revenues - Residential	(\$20,613)	(\$18,680)	(\$18,680)
Total Operating Revenue	<u>(20,613)</u>	<u>(18,680)</u>	<u>(18,680)</u>
Operating Expenses:			
Salaries & Wages	65,434	6,053	6,493
New employees allocated w/taxes and benefits			14,064
Payroll Taxes	4,841	502	771
Employee Benefits	6,249	0	0
Operating Expense chgd to Plant	242	(664)	(820)
Consumer Price Index Increase	8,431	0	0
Amortization of Rate Case Expense	1,655	(12,049)	(10,399)
Meter Reading Allocation		6,709	6,709
Bad Debts Expense		197	197
IURC Fee		(20)	(20)
Utility Receipts Tax		(45,302)	(45,302)
Depreciation	21,352	(6,543)	41,297
Amortization of CIAC		(78,426)	(93,365)
Income Taxes - Federal	(26,481)	35,224	20,188
Income Taxes - State	(22,998)	(3,738)	(7,847)
Total Operating Expense	<u>58,725</u>	<u>(98,058)</u>	<u>(68,033)</u>
Total Net Operating Income Adjustments	<u>(\$79,338)</u>	<u>\$79,378</u>	<u>\$49,353</u>

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Balance Sheet as of June 30, 2006

Assets and Other Debits:

	Water	Sewer	Combined
Fixed Assets:			
Utility Plant In Service	\$5,113,324	\$11,649,676	\$16,763,000
Less: Accumulated Depreciation	1,200,765	2,652,667	3,853,432
Net Utility Plant In Service	3,912,559	8,997,009	12,909,568
Acquisition Adjustment	0	0	0
Accum. Amortization of Acquisition Adj.	0	0	0
Construction Work In Progress	38,805	225	39,030
Total Utility Plant In Service	3,951,364	8,997,234	12,948,598
Abandoned Plant			0
Total Plant	3,951,364	8,997,234	12,948,598
Other Assets and Investments	0	0	0
Current and Accrued Assets:			
Cash and Cash Equivalents			265
Accounts Receivable			423,487
Accounts Receivable - Other			
Amortizable Expenses			
Inventory			
Prepaid Taxes			
Total Current and Accrued Assets	0	0	423,752
Deferred Debits:			
Deferred Rate Case Expense (net of Amc	19,698	19,316	39,014
Deferred Tank Mtnc Exp (Net of Amort	86,945		86,945
Deferred Jetting Sewer Mains (Net of Amort)		6,723	6,723
Total Assets and Other Debits	\$4,058,007	\$9,023,273	\$13,505,032

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Balance Sheet as of June 30, 2006

<u>Liabilities and Stockholders Equity:</u>	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Stockholders Equity:			
Common Stock			\$ 7,139,647
Undistributed Earnings			5,575,650
Current Income			
Total Stockholders Equity			<u>12,715,297</u>
Long Term Debt			
Total Long Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Current and Accrued Liabilities:			
Accounts Payable			8,830
Accounts Payable -Assoc. Companies			(6,349,826)
Customer Deposits			1,515
Customer Deposits - interest			3,453
Accrued Taxes - Indiana Gross			
Accrued Property Taxes			427,439
Accrued Taxes - Indiana Sales Tax			
Accrued Taxes - Federal Income Tax			
Accrued Interest			
Total Current and Accrued Liabilities			<u>(5,908,589)</u>
Deferred Credits:			
Unamortized ITC			82,913
Deferred Tax - Federal			881,023
Deferred Tax - State			<u>(52,852)</u>
Total Deferred Credits			<u>911,084</u>
Contribution In Aid Of Construction - Water	2,058,911		2,058,911
Contribution In Aid Of Construction - Sewer		3,730,294	3,730,294
Total Liabilities and Stockholders Equity	<u>\$ -</u>	<u>\$ 3,730,294</u>	<u>\$ 13,506,997</u>

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Income Statement For The Year Ended June 30, 2006

<u>Operating Revenues:</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Water/Sewer Revenues Residential	\$ 815,906	\$1,504,196	\$2,320,102
Water/Sewer Revenues Commercial			0
Late Fees	7,814	7,662	15,476
Miscellaneous Revenues	(18)	(17)	(35)
Connection Meter Fees	227	223	450
New Customer Charge	3,282	3,218	6,500
NSF Charge	121	119	240
Cut-off Charge	290	285	575
Total Operating Revenues	823,702	1,515,685	2,343,308
<u>Operating Expenses:</u>			
Salaries and Wages	154,311	\$151,316	305,627
Payroll Taxes (from pet wkp [e] on taxes)	12,795	12,547	25,342
Pension & Other Benefits	28,057	27,513	55,570
Purchased Power	108,298	66,327	174,625
Maintenance & Repair	73,835	78,118	151,953
Maintenance Testing	8,134	33,366	41,500
Meter Reading	13,550	0	13,550
Chemicals	19,344	18,968	38,312
Transportation	24,134	23,665	47,799
Operating Expense charged to Plant	(19,758)	(19,375)	(39,133)
Outside Services - Other	7,787	7,636	15,423
Office Supplies & Other Office Expenses	13,869	13,600	27,469
Rent	133	130	263
Insurance	21,209	20,797	42,006
Office Utilities	8,008	7,853	15,861
Regulatory Commission Expense (42488 rate case amort)	22,894	22,449	45,343
Uncollectible Accounts	4,647	8,395	13,042
Miscellaneous	(15,914)	(15,605)	(31,519)
Total Operations and Maintenance Expenses	485,333	457,700	943,033
Depreciation	116,923	257,706	374,629
Amortization of CIAC	0	0	0
Net Operating Income Before Income Taxes	221,446	800,279	1,021,726
Taxes other than Income:			
Utility/Commission Tax	879	1,588	2,467
Property and other general taxes (Corp)	94,625	92,789	187,414
Real Estate Tax	10,015	9,820	19,835
Personal Property Tax	109,482	107,357	216,839
Utility Receipts Tax	36,606	66,133	102,739
Franchise Tax (SOS report)	2	2	4
Amortization of Investment tax credit	(567)	(1,304)	(1,871)
Income Taxes - Federal	47,640	86,067	133,707
Income Taxes - State	21,483	38,813	60,296
Total Operating Expenses	791,189	1,116,671	433,148
Net Income from operations	\$ 32,513	\$ 399,014	\$431,527
Other Deductions:			
Interest during construction	303	696	999
Interest on Debt	83,215	191,852	275,067
Net Corporate Income	(51,005)	206,466	155,461

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Water

Calculation of Rate Base as of June 30, 2006  
Updated Through December 31, 2006

<u>Description:</u>	<u>6/30/06 Petitioner</u>	<u>Supplemental Petitioner</u>	<u>OUCC</u>	<u>Settlement</u>
Utility Plant In Service as of 6/30/06	\$5,113,324	\$5,113,324	\$5,113,324	\$5,113,324
UPIS items added 7/1/06 - 12/31/06 posted to books		\$209,419	\$209,419	\$209,419
Less: Accumulated Depreciation	1,200,765	1,200,765	1,200,765	1,200,765
Net Utility Plant in Service 6/30/06	3,912,559	\$4,121,978	\$4,121,978	\$4,121,978
Capital items Added 7/1/06 - 12/31/06 net of retirements (not posted to books)	90,311	121,069	121,069	121,069
Add: Additions through March 2007 (General Ledger Addition)	84,849	0		
Less: Additional Depreciation through 12/31/06 (6 months)	(32,519)	(39,896)	53,525	53,525
Contributions in Aid of Construction	2,058,911	2,061,761	2,061,761	2,061,761
Accumulated Amortization of CIAC			(475,043)	(475,043)
Deferred Income Taxes	434,749	430,948	430,947	430,947
Unamortized Income Tax Credits			41,863	41,863
Customer Deposits	765	765	765	765
Total Net Utility Plant In Service	1,625,813	1,789,469	2,129,229	2,129,229
Add: Working Capital (See Below)	68,749	69,124	49,449	51,735
Total Original Cost Rate Base	\$1,694,562	\$1,858,593	\$2,178,679	\$2,180,964

Working Capital Calculation

<u>Description</u>	<u>Petitioner</u>	<u>OUCC</u>	<u>Settlement</u>
Pro-forma Present Rate Operations and Maintenance Expense	\$572,365	467,698	485,981
Less: Payroll Taxes	17,730	13,307	13,307
Less: Bad Debts (Uncollectable Accounts) Expense	4,647	4,647	4,647
Less: Purchased Power		54,149	54,149
Adjusted Operation and Maintenance Expense	549,988	395,595	413,879
Times: 45 day method	0.125	0.125	0.125
Working Capital Requirement	\$68,749	\$49,449	\$51,735



TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Sewer

Calculation of Rate Base as of June 30, 2006  
Updated Through December 31, 2006

Description:	6/30/06 Petitioner	12/31/06 Petitioner	Per OUCC	Settlement
Utility Plant In Service as of 6/30/06	\$11,649,676	\$11,649,676	\$11,649,676	\$11,649,676
UPIS items added 7/1/06 - 12/31/06 posted to books		\$382,124	\$382,124	\$382,124
Less: Accumulated Depreciation	2,652,667	2,652,667	2,652,667	2,652,667
Net Utility Plant in Service 6/30/06	8,997,009	9,379,133	9,379,133	9,379,133
Add: Capital items Added 7/1/06 - 12/31/06 net of retirements (not posted to books)	66,026	77,907	77,907	77,907
Additions through March 2007 (General Ledger Additions)	164,256	0		
Less: Additional Depreciation assets through 12/31/06 (6 months)	(248,854)	(133,990)	125,581	149,502
Contributions in Aid of Construction	3,730,294	3,734,590	3,734,590	3,734,590
Accumulated Amortization of CIAC			(856,802)	(856,802)
Deferred Income Taxes (69.18%)	393,422	389,717	389,717	389,717
Unamortized Income Tax Credits			41,050	41,050
Customer Deposits	750	750	750	750
Total Net Utility Plant In Service	5,351,679	5,465,973	6,022,153	5,998,233
Add: Working Capital (See Below)	64,846	64,846	49,406	51,439
Total Original Cost Rate Base	\$5,416,525	\$5,530,819	\$6,071,559	\$6,049,672

Working Capital Calculation

Description	Petitioner	OUCC	Settlement
Pro-forma Present Rate Operations and Maintenance Expense	\$544,552	\$449,856	\$466,123
Less: Payroll Taxes	17,388	13,049	13,049
Less: Bad Debts (Uncollectable Accounts) Expense	8,395	8,395	8,395
Less: Purchased Power		33,164	33,164
Adjusted Operation and Maintenance Expense	518,769	395,248	411,516
Times: 45 day method	0.125	0.125	0.125
Working Capital Requirement	\$64,846	\$49,406	\$51,439

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Capital Structure

Description	Amount	Percent of Total	Cost	Weighted Cost
Utilities, Inc. & Subsidiaries				
Common Equity	129,744,867	41.89%	10.15%	4.25%
Long Term Debt	180,000,000	58.11%	6.58%	3.82%
Total	309,744,867	100.00%		8.07%

Synchronized Interest Calculation

Water

<u>Description:</u>	As Of
Total Original Cost Rate Base-See Sch. 4W	12/31/2006
Times: Weighted Cost of Debt	\$2,180,964
	3.82%
Synchronized Interest Expense	\$83,313

Synchronized Interest Calculation

Sewer

<u>Description:</u>	As Of
Total Original Cost Rate Base-See Sch. 4S	12/31/2006
Times: Weighted Cost of Debt	\$6,049,672
	3.82%
Synchronized Interest Expense	\$231,097

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128  
WATER  
Pro-forma Net Operating Income Statement

Description:	Year Ending 6/30/06	Adjustments	Sch. Ref.	Pro-forma Present Rates	Adjustments	Sch. Ref.	Pro-forma Proposed Rates
Operating Revenues:							
Water Revenues Residential	\$802,917	\$1,636	7-1	\$ 805,594	\$193,489	1	\$999,083
		\$1,040	7-2				
Water Revenues Commercial	12,989			12,989	3,120	1	16,109
Late Fees	7,814			7,814	1,877	1	9,691
Miscellaneous Revenues	(18)			(18)			(18)
Connection Meter Fees	227			227			227
New Customer Charge	3,282			3,282			3,282
NSF Charge	121			121			121
Cut-off Charge	290			290			290
Total Operating Revenues	<u>827,623</u>	<u>2,677</u>		<u>830,300</u>	<u>198,485</u>		<u>1,028,785</u>
Operating Expenses:							
Operations and Maintenance	480,686			485,981			485,981
Salaries & Wages		8,195	8-1				
New employees allocated w/taxes and benefits		14,343	8-1(a)				
Payroll Taxes		907	8-2				
Employee Benefits		0	8-3				
Operating Exp chgd to Plant		(837)	8-4				
Amortization of Rate Case Expense		(10,604)	8-6				
Meter Reading		(6,709)	8-7				
Bad Debts Expense	4,647	91	8-5	4,738	1,149	1	5,886
Taxes other than Income:							
Utility/Commission Tax	879	3	8-7	882	211	1	1,093
Property and other general taxes (Corp)	94,625			94,625			94,625
Real Estate Tax	10,015			10,015			10,015
Personal Property Tax	109,482			109,482			109,482
Utility Receipts Tax	36,606	(25,055)	8-10	11,551	2,763	1	14,314
Franchise Tax (SOS report)	2			2			2
Depreciation	116,923	(9,873)	8-8	107,050			107,050
Amortization of CIAC	0	(41,235)	8-9	(41,235)			(41,235)
Amortized Investment Tax Credit	(567)			(567)			(567)
Income Taxes - Federal	47,640	(59,029)	8-11	(11,389)	60,387	1	48,997
Income Taxes - State	21,483	(23,522)	8-12	(2,039)	16,756	1	14,717
Total Operating Expenses	<u>922,420</u>	<u>(153,325)</u>		<u>769,095</u>	<u>81,265</u>		<u>850,360</u>
Net Operating Income	<u>(\$94,797)</u>	<u>\$156,002</u>		<u>\$61,204</u>	<u>\$117,221</u>		<u>\$178,425</u>

## TWIN LAKES UTILITIES, INC.

CAUSE NO. 43128

SEWER

## Pro-forma Net Operating Income Statement

Description:	Year Ending 6/30/2006	Adjustments	Sch. Ref.	Pro-forma Present Rates	Adjustments	Sch. Ref.	Pro-forma Proposed Rates
Operating Revenues:							
Sewer Revenues - Residential	\$1,451,388	(\$20,613)	7-1	\$ 1,432,708	\$64,730	1	\$1,497,438
		1,933	7-2				
Sewer Revenues - Commercial	52,808			52,808	2,386	1	55,194
Late Fees	7,662			7,662	346	1	8,008
Miscellaneous Revenues	(17)			(17)			(17)
Connection Meter Fees	223			223			223
New Customer Charge	3,218			3,218			3,218
NSF Charge	119			119			119
Cut-off Charge	285			285			285
Total Operating Revenues	1,515,685	(18,680)		1,497,005	67,463		1,564,468
Operating Expenses:							
Operations and Maintenance	449,305			466,123			466,123
Salaries & Wages		6,493	8-1				
New employees allocated w/taxes and benefits		14,064	8-1(a)				
Payroll Taxes		771	8-2				
Employee Benefits		0	8-3				
Operating Expense chgd to Plant		(820)	8-4				
Amortization of Rate Case Expense		(10,399)	8-6				
Meter Reading		6,709	8-7				
Bad Debts Expense	8,395	197	8-5	8,592	390	1	8,983
IURC Fee							
Taxes other than Income:							
Utility/Commission Tax	1,588	(20)	8-8	1,568	72	1	1,640
Property and other general taxes (what is this?)	92,789			92,789			92,789
Real Estate Tax	9,820			9,820			9,820
Personal Property Tax	107,357			107,357			107,357
Utility Receipts Tax	66,133	(45,302)	8-11	20,831	939	1	21,770
Franchise Tax (SOS report)	2			2			2
Depreciation	257,706	41,297	8-8	299,003			299,003
Amortization of CIAC	0	(93,365)	8-10	(93,365)			(93,365)
Amortized Investment Tax Credit	(1,304)			(1,304)			(1,304)
Income Taxes - Federal	86,067	20,188	8-12	106,255	20,525	1	126,779
Income Taxes - State	38,813	(7,847)	8-13	30,966	5,695	1	36,661
Total Operating Expenses	1,116,671	(68,033)		1,048,638	27,621		1,076,259
Net Operating Income	\$399,014	\$49,353		\$448,367	\$39,842		\$488,209

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Revenue Adjustments

(1)

Customer Normalization

To adjust test year residential revenue for customer additions during the test year (7/1/05 - 6/30/06).

	Water	Sewer
Pro forma	\$817,542	\$1,483,583
Less Test Year (sch 2)	815,906	1,504,196
Adjustment - Increase	\$1,636	(\$20,613)

(2)

Customer Growth Revenue Updated to December 31, 2006

To adjust for growth through December 31, 2006 (Source: Data Request Response)

**Residential**

	Water	Sewer
Customers as of 12/31/06	3,070	3,058
Less Customers as of 06/30/06	3,066	3,054
Growth since test year	4	4
Times Average Bill (annual):		
Avg Bi-monthly usage (1,000 gallons)	13.33	
Bill for avg gallons (13.33 * 2.27)+13.09	\$43.35	
Times Six billings per year	x 6	
Annual average residential - current price	\$260.10	\$483.18
Revenue Adjustment based on Fixed, Known, Measurable Growth	\$1,040	\$1,933

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128  
WATER & SEWER  
Expense Adjustments

(1) <u>Wages - Settlement</u>			
Based on Petitioner's requested salaries and wages in Cause 42488, adjusted for 4% wage increase each year.			
	Alloc to Twin Lakes	50.49% Water	49.51% Sewer
From Petitioner's Request in 42488	\$273,807	\$138,911	\$134,896
2004 - 4% increase	\$284,759	144,467	140,292
2005 - 4% Increase	\$296,150	150,246	145,904
2006 - 4% Increase	\$307,996	156,256	151,740
2007 - 4% Increase	\$320,315	162,506	157,809
Less: Test Year	\$305,627	154,311	151,316
Adjustment	\$14,688	8,195	6,493
(1a) <u>Additional Employees allocated</u>			
Salaries:	Before Allocation	50.49% Water	49.51% Sewer
Administrative Assistant	\$36,400	Alloc to Twin Lakes	
Regional Director - Mid-west	67,600		
Taxes - FICA, FUTA, SUTA	8,446		
Insurance, Pension, Benefits	16,208		
Total	128,654		
Times Allocation % to Twin Lakes	22.08%		
New Employees costs as allocated		\$28,407	14,343
			14,064

(2) <u>Payroll Tax</u>			
To adjust payroll tax to <i>pro forma</i> levels. (Based on Adjustment 1 salaries as adjustment 1a includes payroll taxes.)			
	Alloc. To Twin Lakes	50.49% Water	49.51% Sewer
Pro-Forma Salaries & wages	\$320,315	\$162,506	\$157,809
times employer's FICA rate	7.65%	7.65%	7.65%
Pro forma FICA tax	\$24,504	\$12,432	\$12,072
Plus: FUTA	421	\$212	\$208
Plus: SUTA	2,095	\$1,058	\$1,037
Pro Forma Payroll Taxes	\$27,020	\$13,702	\$13,318
Less: Test Year Payroll Tax Expense	\$25,342	\$12,795	\$12,547
Adjustment - Increase/(Decrease)	\$1,678	\$907	\$771

(3) <u>Employee Benefits</u>			
Adjust benefits to <i>pro forma</i> amount			
	Alloc. To Twin Lakes	50.49% Water	49.51% Sewer
Benefits allocated to water and sewer	\$55,570	\$28,057	\$27,513
Less Test Year Expense	55,570	28,057	27,513
Adjustment to test year expense	\$0	\$0	\$0

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128  
WATER & SEWER  
Expense Adjustments

(4)

Capitalized Payroll, Payroll Taxes and Benefits

Adjust Operating Expense for amount of payroll and payroll related expense items anticipated to be capitalized. (Based on capitalization ratios from test year)

Test year operating expense charged to plant in test year (Petitioner's schedule B, page 1 of 4 "Per Books")	(\$39,133)
Divide by test year salaries, taxes, and benefits (Petitioner's schedule B, page 1 of 4 "Per Books")	386,539
Percentage of test year salaries, taxes and benefits that were capitalized.	-10.12%
Pro Forma salary, taxes and benefits (#1,2 & 3 above)	\$402,906
Times capitalization percentage from above	-10.12%
Pro forma capitalized payroll, payroll taxes and benefits	(\$40,790)

	Total	Water 50.49%	Sewer 49.51%
Pro forma	(\$40,790)	(\$20,595)	(\$20,195)
Less test year	(\$39,133)	(\$19,758)	(\$19,375)
Adjustment to test year	(\$1,657)	(\$837)	(\$820)

(5)

Bad Debts Expense

	Water	Sewer
Test Year rate revenue	\$802,917	\$1,451,388
Test Year Bad Debts (Uncollectible Accounts)	4,647	8,395
Uncollectible Percentage Calculated	0.5788%	0.5784%

	Pro Forma Current Rates	
Pro Forma Revenue	818,583	1,485,516
Times Uncollectible Percentage above	0.5788%	0.5784%
Pro Forma Proposed bad debts (uncollectible Accounts)	4,738	8,592
Less: Pro Forma Proposed bad debts	4,647	8,395
Adjustment - Increase	91	197

(6)

Rate Case Amortization

To adjust for unamortized rate case expense.		50.49%	49.51%
	Total	Water	Sewer
Legal Fees (Clayton Miller - Bakers & Daniels, LLP)	\$40,000	\$20,196	\$19,804
Customer Notice:			
Postage (3,104 notices x 39¢)	1,211	611	599
Paper Stock (3,104 notices x .0526¢)	163	82	81
	1,374	694	680
Travel			
Gasoline (xxx miles * \$2.50/gal % 20 mpg)	72	36	35
Hotel/Accommodations (2 people @\$120 per night x 4 nights)	960	485	475
Rental Cars (\$200 per trip x 2 trips)	400	202	198
	1,432	723	709
Water Service Co. Personnel:	Hrs rate Amount\$		
Steve Lubertozzi	30 \$89 \$2,670	1,348	1,322
K. Wentz	25 45 1,125	568	557
Michael Dryjanski	200 57 11,400	5,756	5,644
LS	100 43 4,300	2,171	2,129
LY	40 25 1,000	505	495
MM	40 34 1,360	687	673
JB	40 29 1,160	586	574
Total WSC Personnel	23,015	11,620	11,395
Cost of Capital Witness (P. Ahern)	7,000	3,534	3,466
Costs of Mailing and Copies	200	101	99
Unamortized amount of prior rate case expense (the balance will be fully amortized in April, 2007)			
Cost of current and unamortized rate case expense	73,020	36,868	36,152
Amortized over 3 years	3	3	3
pro forma proposed rate case expense	24,340	12,289	12,051
Less: Test Year	45,343	22,894	22,449
Adjustment - Decrease	\$ (21,003)	\$ (10,604)	\$ (10,399)

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128  
WATER & SEWER  
Expense Adjustments

(7)  
Meter Reading Allocation

To spread meter reading expenses between water and sewer utilities. This adjustment reflects OUCC recommendation to charge for sewer service based on metered water usage.

	50.49% Water	49.51% Sewer
Pro Forma Meter Reading expense (based on test year total amount)	\$6,841	\$6,709
Less Test Year	13,550	0
Adjustment - Increase/(Decrease)	<u>(\$6,709)</u>	<u>\$6,709</u>

(8)  
IURC Fee

To normalize Utility Regulatory Commission Fees.

	Water	Sewer
Additional Revenues	2,677	(\$18,680)
Rate 0.1062098%	0.1062098%	0.1062098%
Adjustment - Increase (decrease)	<u>\$2.84</u>	<u>(\$19.84)</u>

(9)  
Depreciation Expense

To update depreciation expense, reflecting additional plant and authorized depreciation rates.

	Water	Sewer
Utility Plant in Service per books - 06/30/06	\$5,113,324	\$11,649,676
Add: Assets placed in service from 7/1/06 through 12/31/06	330,488	460,031
Less: Land	91,290	149,576
Total Depreciable Plant in Service	5,352,522	11,960,131
Depreciation Rate (Composite Rate approved by Commission)	2.00%	2.50%
Pro-Forma Plant Depreciation expense	107,050	299,003
Less: Test Year	116,923	257,706
Adjustment - Decrease	<u>(\$9,873)</u>	<u>\$41,297</u>

(10)  
Amortization of CIAC

To amortize Contributions in Aid of Construction.

	Water	Sewer
CIAC per books 12/31/06 (credit balance)	(\$2,061,761)	(\$3,734,590)
Times depreciation rate of assets	2.00%	2.50%
Amortization of CIAC	(\$41,235)	(\$93,365)
Less: Test Year	\$0	\$0
Adjustment - Decrease Expense	<u>(\$41,235)</u>	<u>(\$93,365)</u>



TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128  
WATER & SEWER  
Expense Adjustments

(11)

Utility Receipts Tax

To adjust taxes to current conditions.

	Pro Forma Gross Receipts	Less Bad Debts	Less 1/2 of \$1000 exemption	Taxable Amount	Times Rate	Adjustment
<u>WATER</u>						
Utility Receipts Tax	\$830,300	4,738	\$500	\$825,062	1.40%	\$11,551
Less: Test Year						36,606
Adjustment - Decrease						<u>(\$25,055)</u>

	Pro Forma Gross Receipts	Less Bad Debts	Less 1/2 of \$1000 exemption	Taxable Amount	Times Rate	Adjustment
<u>SEWER</u>						
Utility Receipts Tax	\$1,497,005	8,592	\$500	\$1,487,913	1.40%	\$20,831
Less: Test Year						66,133
Adjustment - Decrease						<u>(\$45,302)</u>

(12)

Federal Income Taxes

To adjust Federal Income Taxes to Pro-forma Present Rate amount.

	Water Pro-Forma Present Rates	Sewer Pro-Forma Present Rates
Total Revenue	\$ 830,300	\$1,497,005
Less:		
Operation & Maintenance Expenses	485,981	466,123
Bad Debts Expense	4,738	8,592
Synchronized Interest	83,313	231,097
Depreciation & Amortization	65,248	204,335
Taxes other than Income (other than URT)	215,005	222,547
Net income before income taxes	(23,986)	364,310
Indiana Utility Receipts Tax	11,551	20,831
Indiana Adjusted Gross Income Tax	(2,039)	30,966
Federal Taxable Income	(33,497)	312,514
Federal Tax Rate	34.00%	34.00%
Sub-total Pro Forma Present Rates Federal Income Taxes	(11,389)	106,255
Less: Test Year	47,640	86,067
Adjustment - Increase (decrease)	<u>\$ (59,029)</u>	<u>\$ 20,188</u>

(13)

State Income Tax

To adjust State Income Taxes to Pro-forma Present Rate amount.

	Water Pro-Forma Present Rates	Sewer Pro-Forma Present Rates
Federal Taxable Income	(33,497)	312,514
Add: Taxes Based on Income:		
Utility Receipts Tax	11,551	20,831
State Adjusted Gross Income Tax	(2,039)	30,966
State Taxable Income	(23,986)	364,310
Rate	8.50%	8.50%
Indiana Adjusted Gross Income Tax	(2,039)	30,966
Less: Test Year	21,483	38,813
Adjustment - Increase (decrease)	<u>\$ (23,522)</u>	<u>\$ (7,847)</u>

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Water

Current and proposed rates

Base Facility Charge

Meter Size	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
	Base Facility Charge	Base Facility Charge	Base Facility Charge	Base Facility Charge
5/8" & 3/4"	\$13.09	\$19.02	\$15.62	\$16.23
1"	32.72	47.55	39.05	40.58
1 1/2"	65.44	95.10	78.11	81.16
2"	104.71	152.17	124.98	129.86
3" not currently needed		0.00	0.00	0.00
4" not currently needed		0.00	0.00	0.00
6" not currently needed		0.00	0.00	0.00

Volume Charge

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Per 1,000 gallons	\$2.27	\$3.30	\$2.71	\$2.82
billed bi-monthly				

Unmetered Water Service

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Flat rate for unmetered public drinking fountain	\$34.47	\$50.09	\$41.14	\$42.75

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
New Customer charge	\$20.00	\$20.00	\$20.00	\$20.00
NSF check charge	\$10.00	\$10.00	\$10.00	\$10.00
Meter fee (Outside Reader)	\$35.00	\$35.00	\$35.00	\$35.00
Reconnection charge:				
If service is disconnected by the Company for good cause	\$25.00	\$25.00	\$25.00	\$25.00
If service is disconnected at the customer's request	\$25.00	\$25.00	\$25.00	\$25.00

(plus the base facility charge for  
the period of disconnection if the  
customer asks to be reconnected  
within 9 months of disconnection)

Connection Charge (in addition to new customer charge):

Residential	\$475	\$475	\$475	\$475
Commercial (5/8" meter)	\$475	\$475	\$475	\$475
Commercial (larger than 5/8" meter)	Greater of \$475 or actual cost of meter and installation			

TWIN LAKES UTILITIES, INC.  
CAUSE NO. 43128

Sewer

Current and Proposed Rates

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Flat Rate Sewer - Residential	\$80.53	\$95.23		\$84.17
Per 1,000 gallons			\$5.82	
Commercial - minimum	\$73.82	\$94.55		\$77.16
Commercial - above minimum	200% of water bill			

Billings are bi-monthly

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
New Customer charge	\$20.00	\$20.00	\$20.00	\$20.00
NSF check charge	\$10.00	\$10.00	\$10.00	\$10.00

Reconnection charge:

Actual cost of disconnection and  
reconnection, the estimated cost of which  
will be furnished to customer with cut-  
off notice

Connection Charge (in addition to new customer charge):

Residential	\$716	\$716	\$716	\$716
Commercial (5/8" meter)	\$716	\$716	\$716	\$716
Commercial (larger than 5/8" meter)	Greater of \$716 or actual cost of meter and installation			